Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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Soviet Cutbacks of Metals and Mineral Exports: An Update

Summary

In October 1984 we reported that the USSR had sharply reduced supplies to Western markets of selected minerals and strategic and precious metals in 1980-83 compared with export levels of the 1970s (see table 1). Moreover, we deduced that Soviet sales of most of these commodities had been or may have been further reduced in 1984. This conclusion was based on incomplete trade statistics that indicated Soviet export intentions for the year as a whole. In the event, there were further export declines in 1984 of only 4 of the 11 raw materials for which trade statistics are available. Nevertheless, the more recent data reinforce our original judgment that the cutbacks for the 4 commodities and the lack of resurgence in exports of several other minerals and metals are part of a longer-term trend. The evidence is yet too fragmentary for us to be able to draw any general conclusion about sales of these commodities in 1985.

Recent analysis supports our original hypothesis that multiple influences--rather than a comprehensive policy--were responsible for the cutbacks. In particular, domestic production of several minerals and metals has not met internal or CEMA demand and that exports were reduced to close the gap. On the other hand, export availability of gold, platinum, palladium, and diamonds--all important hard currency earners--has been primarily affected by soft market conditions and the Soviets' overall favorable trade position. Indeed, some of the earlier reports of expected cutbacks in 1984 may have been the result of Soviet attempts to manipulate the markets.

This memorandum was prepared by the Economic Performance Division, National Issues Group, Office of Soviet Analysis. Comments and queries are welcome and may be addressed to Acting Chief, Economic Performance Division, SOVA

SOVA M 85-10089

1984 Revisited

In our original memorandum, we reported that exports to hard currency markets of selected minerals and strategic and precious metals fell in the early 1980s compared to levels of the 1970s and that deliveries declined even further in 1984.[1] We could not establish, however, that the USSR had curbed exports as part of a comprehensive economic or military policy and we proposed several alternative explanations including (a) an improved hard currency position, (b) soft market prices in the West, (c) Soviet attempts to manipulate prices, (d) slower growth of domestic production, (e) increased domestic requirements, and (f) rising demand in other CEMA countries. Although exports of these commodities in 1984 generally remained well below sales in the 1970s, deliveries did not decline across the board-

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trade statistics indicate that exports to the West of several metals including aluminum, gold, and rhodium remained roughly constant in 1984 relative to 1983 levels, albeit well below sales in the 1970s. Indeed, exports of some items--platinum, palladium, iron ore, refined copper, and coal--rose from 1983 to 1984 (see table 2). On the other hand, exports of chromium ore and titanium fell to the lowest level since at least the 1960s.

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We still do not believe the cutbacks observed since the 1970s are part of a single, comprehensive policy such as a stepup in a stockpiling program to deal with production bottlenecks or to enhance mobilization readiness. We believe our original hypothesis that multiple influences are involved remains valid. In particular, [redacted] domestic 25X1 production of several minerals and metals has not met Soviet domestic or CEMA demand and that hard currency exports were reduced to close the gap. On the other hand, export availablity of gold, platinum, palladium and diamonds--all important hard-currency earners--has been primarily affected by soft market conditions and the Soviets' overall favorable trade position. Exports of these commodities accounted for roughly 5 percent of Soviet hard currency earnings in 1983. The Soviets seem to set hard currency earnings targets, selling only enough to meet these goals. [redacted] 25X1

[redacted] 25X1

We have not been able to detect any major changes in Soviet precious metals (gold and platinum group metals) and diamond export trends since late 1984. The volume of precious metals sales remains at a lower level than in the 1970s, but this is probably the result of the sharp improvement in the Soviet hard currency position since 1981 and relatively low prices in today's metals markets.

- Gold sales in 1984 were roughly in line with 1983 sales. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

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- Despite Soviet announcements that less metal would be available, the Soviets increased exports of platinum and palladium in 1984. In early 1985, the USSR introduced a new and complex methodology for pricing palladium exports with the intent of boosting prices of such exports. 25X1 25X1 the new pricing system does not signify a tightening of Soviet palladium supply. 25X1 25X1

Unlike platinum and palladium, the prices of some minor platinum group metals, including rhodium, have dramatically increased recently. According to a US metals journal, rhodium from the USSR continues to be in short supply. Western metals traders have blamed Eastern Europe's growing rhodium requirements for chemical production for straining the Soviet supply, which has never been plentiful. 25X1

Moscow may currently be withholding 25X1 supplies of platinum group metals in anticipation of a market upturn if the European Community imposes pollution control regulations that would increase demand for these metals. Such rumors in the past have raised prices--in the Soviets' favor. Indeed, the Soviets may have deliberately misled Western traders in late 1983 and 1984 for just this purpose. 25X1

Traditionally, exports of other commodites have generally been more volatile than those of precious metals and diamonds, largely because exports to the West are a residual claimant once domestic and client state needs are satisfied. The loss of these markets would not seriously impair hard currency earnings

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ability, and meeting domestic and CEMA obligations apparently takes precedence.[2] 25X1

25X1 although the quantity of scandium oxide exported in 1984 dropped off substantially from 1983 levels, sales have not ceased entirely. At the same time, sales of chromium ore and beryllium-copper alloys are apparently being cut further. In 1984, the Soviets reportedly reneged on several contracts for the export of chromium ore. 25X1

25X1 the USSR halted all sales of beryllium-copper alloy in early 1985 for the first time since late 1983. 25X1

We believe that domestic production problems and supply bottlenecks probably are responsible for the cutback in chromium ore and beryllium-copper alloy exports to the West. The Soviets continue to wrestle with chromium ore production problems caused by the exhaustion of existing ore bodies and slower-than-expected development of new deposits. 25X1

25X1 domestic production of beryllium does not meet internal demand. The Soviets lost a source of supply in 1981 when China stopped exporting beryllium ore to the USSR.

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In contrast to most of the commodities we looked at, Soviet nickel exports are higher now than they were in the 1970s.

25X1 during the past year the Soviets have shifted nickel sales directly to end users. 25X1

[2] Soviet actions, however, could encourage Western buyers to seek more reliable suppliers of these commodities and possibly reduce future Soviet access to Western markets. 25X1

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[redacted] expect Soviet nickel exports to increase substantially this year.[3] The reduction in titanium exports in 1978-83, however, apparently continued into 1984. [redacted] 25X1

[redacted] the Soviets are expected to reenter the scrap market in 1985, they have not yet done so presumably because of low prices. [redacted] 25X1

[3] We do not believe any Cuban nickel will be involved. The Soviets claim that all nickel imports from Cuba are shipped directly to a plant on the Kola Peninsula whereas Soviet exports of nickel to the West originate at a plant in Noril'sk. [redacted] 25X1

[redacted] 25X1

Table 1

Commodities Examined	Major Uses
Gold	Jewelry, store of value, electronics
Platinum group metals (platinum, palladium, and rhodium)	Automotive (catalytic converters), jewelry, chemical fertilizers, glass, electronics.
Diamonds	Jewelry, mining, abrasives
Chromium ore	Stainless and special alloy steels
Iron ore	Steel
Manganese ore	Steel
Unwrought aluminum[a]	Aerospace, vehicle engine components, construction, packaging
Refined copper	Electronics, construction
Unwrought nickel[a]	Stainless steels, chemicals, electronics
Unwrought titanium[a]	Aerospace, steel, chemical processing equipment, marine applications
Beryllium-Copper alloys	Electronics
Scandium oxide	Petroleum production, lamps
Neodymium	Petroleum refining, glass, electronics, lasers, steel
Coal	Boiler and furnace fuel, metallurgy
Phosphate rock	Chemical fertilizers

[a] Not included in original analysis.

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Table 2

USSR: Exports to the West of Selected Minerals and Metals

Thousand metric tons, except where noted

	1971-75 (annual average)	1976-78 (annual average)	1979	1980	1981	1982	1983	1984
Gold[ab]	152	354	220	80	200	100	55-60	60-80
Platinum and palladium[ac]	70	61	59	39	40	45	45	52
Rhodium[ad]	NA	1.0	1.1	0.6	0.5	0.7	1.0	1.0
Chromium ore	806	396	352	132	144	108	98	32
Iron Ore	4,293	3,923	1,891	1,070	900	831	846	1,120[f]
Manganese ore	198	71	0	0	0	0	0	0
Unwrought aluminum	482	577	155	146	141	205	185	177
Refined copper	67.0	37.0	7.3	5.8	6.4[e]	14.3	16.1	34.5
Unwrought nickel	19	15	28	32	26	31	30	31
Unwrought titanium	4.8	2.8	4.0	3.5	1.5	1.2	1.0	0.6
Coal	10,200	9,933	10,100	7,100	3,600	3,300	5,000[e]	4,256[f]

[a] Metric tons.

[b] CIA estimate.

[c] We have revised this series to include West German import data along with that available from US and Japanese official trade books. These countries normally account for 90 percent of total Soviet exports of these metals.

[d] Only data on US and Japanese imports from the Soviet Union are available because most countries do not report rhodium as a separate commodity in their trade statistics.

[e] Revised.

[f] January-September.

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